
**MARICOPA REGIONAL AREA ROAD FUND
TRANSPORTATION EXCISE TAX
FISCAL YEAR 1998
YEAR-END REPORT**



PREPARED BY:

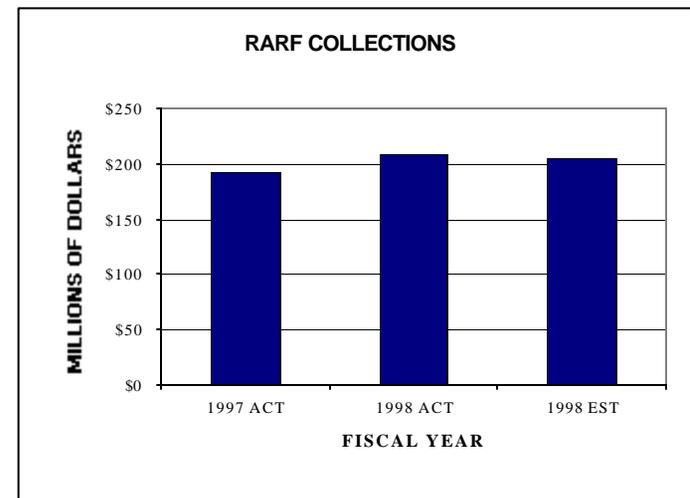
**ARIZONA DEPARTMENT OF TRANSPORTATION
FINANCIAL MANAGEMENT SERVICES
OFFICE OF FINANCIAL PLANNING
AUGUST 1998**

REGIONAL AREA ROAD FUND MARICOPA TRANSPORTATION EXCISE TAX EXECUTIVE SUMMARY

In October 1985, the voters of Maricopa County approved the Maricopa County Transportation Excise Tax in an amount up to ten percent of the State transaction privilege tax rates. This transportation excise tax, often referred to as the "1/2 cent sales tax", is levied upon business activities in Maricopa County, including retail sales, contracting, utilities, rental of real and personal property, restaurant and bar receipts, and other activities. The transportation excise tax revenues are deposited in the Maricopa County Regional Area Road Fund (RARF) which is administered by the Arizona Department of Transportation. The revenues deposited into the RARF account are the principal source of funding for the Regional Freeway System in Maricopa County and are dedicated by statute to the purchase of right-of-way, design and construction of controlled access highways. The "1/2 cent sales tax" is expected to yield \$3.6 billion for the period January 1986 through December 2005.

For Fiscal Year (FY) 1998, Maricopa County transportation excise tax collections totaled \$209.3 million, an increase of 8.8 percent over the FY 1997 revenue level. When compared to the forecast, collections exceeded the estimate by 2.1 percent. The collections have moderated from a high of 12.2 percent in FY 1995 and 11.3 percent in FY 1996 to 8.8 percent in FY 1998.

On a percent basis, the major business activities providing the most growth over last year's revenues were rental of personal property at 14.5 percent, and contracting at 13.6 percent. The retail sales and restaurant and bar had moderated growth of 8.1 percent and 6.9 percent respectively. These growth levels were mainly attributable to increases in employment, personal income and population.

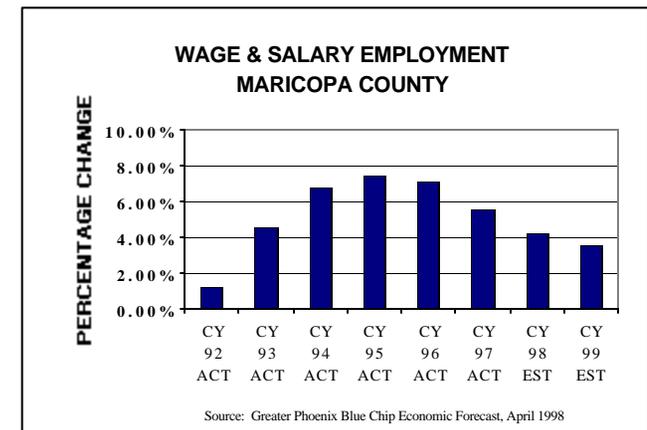
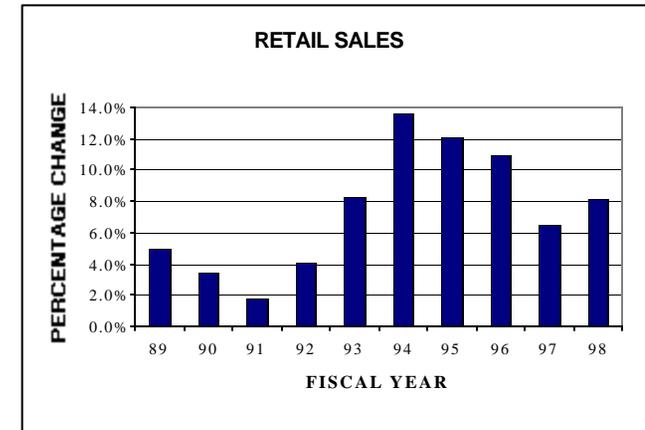


PERFORMANCE BY CATEGORY

RETAIL SALES:

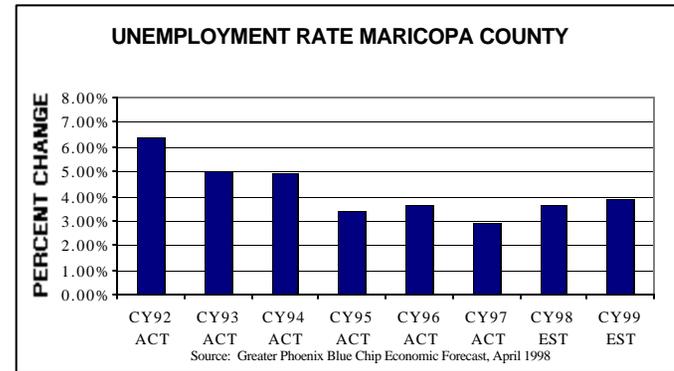
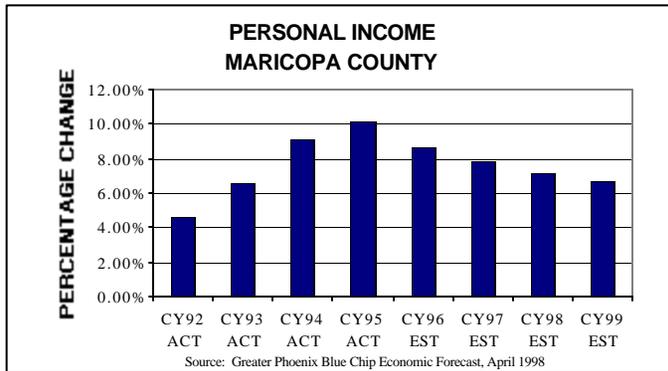
Retail sales collections for FY 1998 totaled \$104.1 million, an increase of 8.1 percent or \$7.8 million over the FY 1997 revenue level. Retail sales collections finished the year 0.6 percent above the forecast. This revenue category continues to represent the largest component of excise tax collections, contributing just under 50 percent of the total tax receipts in FY 1998. Historically, tax revenues from retail sales have maintained positive growth. In FY 1998, the strength of retail sales for was centered in apparel and accessory stores, miscellaneous automotive, motorcycle and boat stores, and motor vehicle dealers.

Maricopa County's retail sales collections have moderated from a high of 13.6 percent in FY 1994 and 12.1 percent in FY 1995 to 8.1 percent in FY 1998. This growth has been a product of strength in wage and salary employment, population and personal income growth, and low interest rates. The Arizona Business forecast for wage and salary employment growth is estimated at 4.2 percent in Calendar Year (CY) 1998 and 3.6 percent in CY 1999. Although there is an expected slowdown in employment growth compared to CY 1996 and CY 1997, retail sales growth is expected to be above average in the foreseeable future..



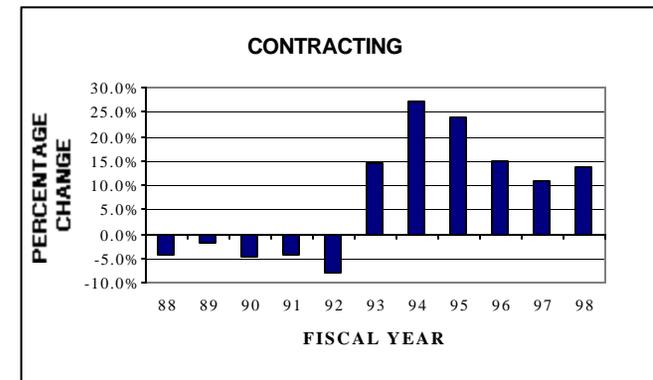
RETAIL SALES: Continued

Personal income growth in Maricopa County in CY 1997 was estimated at 7.9 percent, compared to 8.7 percent for CY 1996. The projected growth in personal income is estimated at 7.2 percent and 6.7 percent in CY 1998 and CY 1999, respectively. The unemployment rate has steadily decreased in Maricopa County to 2.9 percent in CY 1997 from 6.4 percent in CY 1992. However, the estimated unemployment rates for Maricopa County in CY 1998 and CY 1999 are expected to move slightly upward to 3.6 percent and 3.9 percent, respectively. The Blue Chip Economic Forecast estimates retail sales in Maricopa County will increase by 6.0 percent in CY 1998 and 5.6 percent in CY 1999.



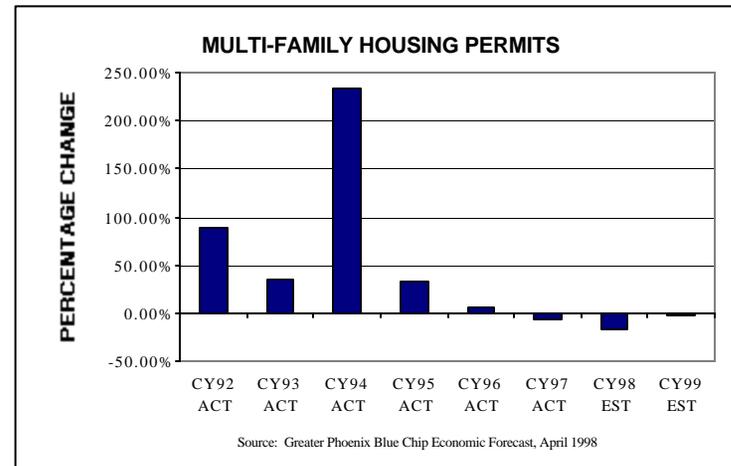
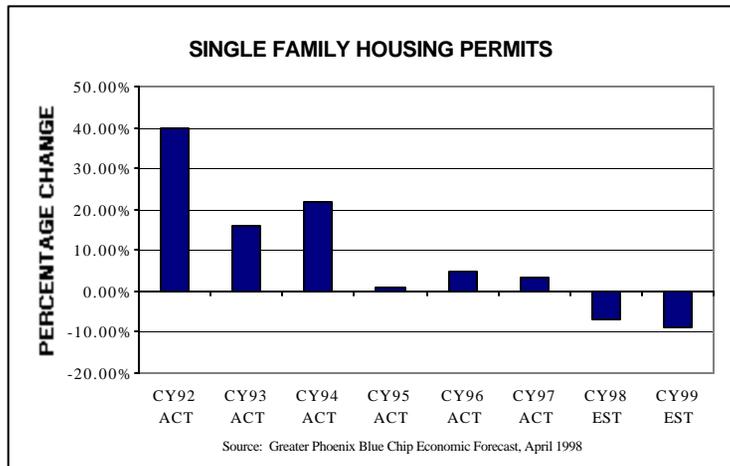
CONTRACTING:

In FY 1998, contracting collections totaled \$30.6 million. This represented a 13.6 percent increase over the FY 1997 revenue level. The much anticipated construction slowdown never materialized due to continued strength in the single family housing and commercial sector. When compared to the forecast, contracting collections surpassed the estimate by 3.4 percent in FY 1998. This revenue category is the second largest of the excise tax collection categories and has posted growth rates over ten percent in each year of the last six fiscal years.



CONTRACTING: Continued

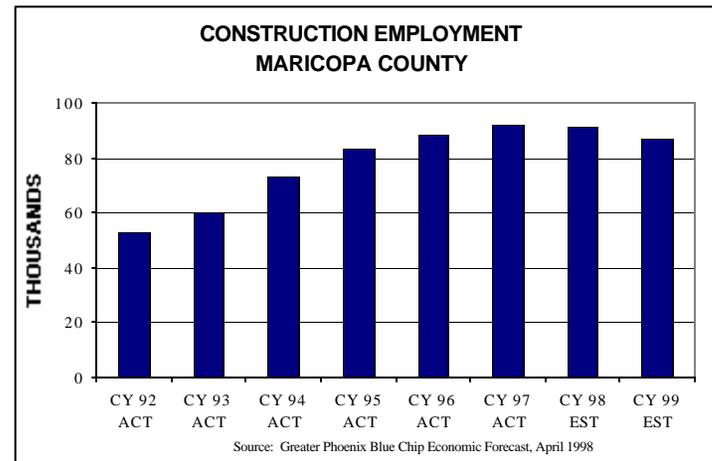
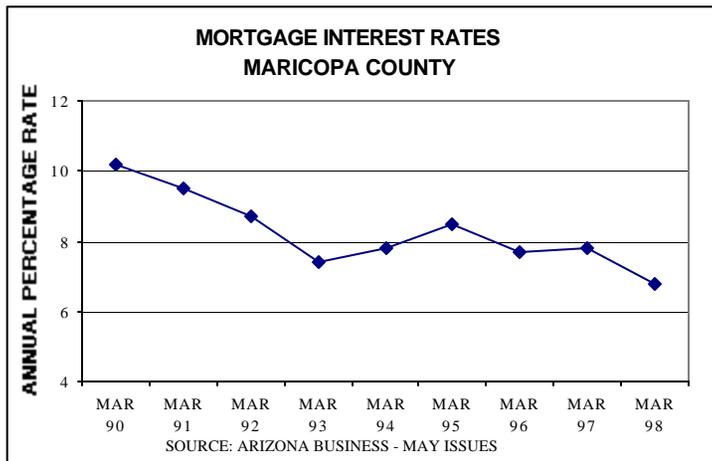
Maricopa County single family housing permits increased by 3.5 percent in CY 1997, compared to 5.0 percent in CY 1996. The forecast for CY 1998 and 1999 shows decreases of 6.8 and 8.6 percent, respectively. Construction activity in the multi-family sector saw a 7.1 percent decrease in CY 1997 from the CY 1996 level. In CY 1996, the multi-family category increased by 6.8 percent. The multi-family housing sector is expected to decrease by 17.6 percent in CY 1998 and 3.1 percent in CY 1999. Vacancy rates are expected to increase moderately in CY 1998 and 1999.



In FY 1998, the contracting sector benefited from lower interest rates, population growth, and high consumer confidence. Interest rates dropped slightly during the first quarter of FY 1998, and continued downward in the second quarter and stayed level for the last two quarters. In March 1998, the interest rate for a conventional 30 year fixed rate mortgage was 6.8 percent, compared to 7.8 percent in March 1997. The Federal Reserve increased the discount rate by 25 basis points in March 1997, but monetary policy change did not impact contracting in Maricopa County during FY 1998.

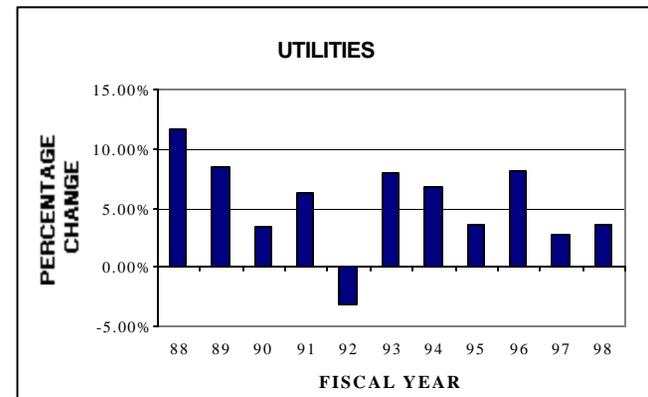
CONTRACTING: Continued

The construction employment sector continues to see growth as a result of increased housing and commercial real estate construction. Total construction employment reached 92,000 in CY 1997, compared to 89,000 in CY 1996. The forecast for construction employment shows a slight decrease with figures reaching 91,000 in CY 1998 to 87,000 in CY 1999. The decrease is due to slower rates of population and employment growth anticipated for 1998 and 1999. With the decline in the single-family and multi-family housing categories during CY 1998 and 1999, growth in construction employment will be limited to the commercial and industrial construction sectors.



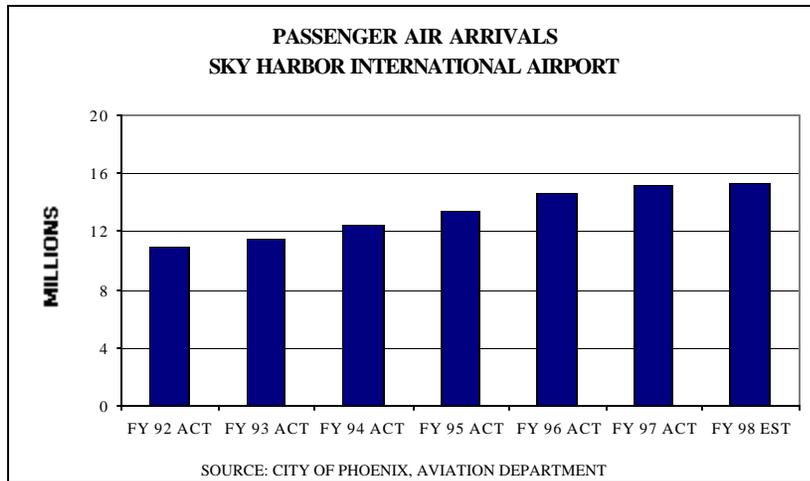
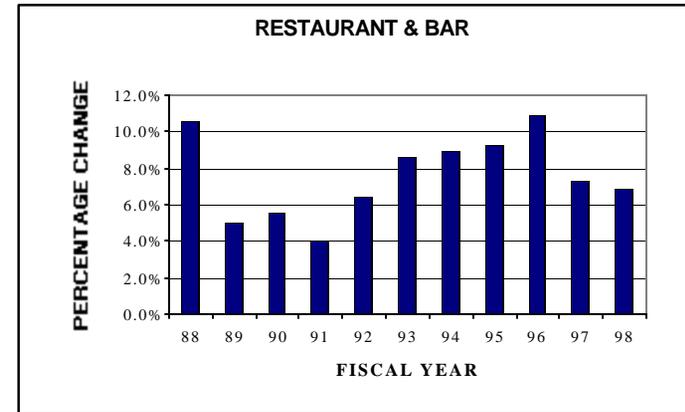
UTILITIES:

Utility tax receipts totaled \$15.1 million in FY 1998, compared to \$14.6 million for the FY 1997. This amounts to a 3.5 percent increase over the FY 1997 receipts level. Utility tax revenues finished 2.4 percent below the estimate in FY 1998. The relatively mild temperatures from El Nino contributed to the lower than estimated utility tax collections during FY 1998.



RESTAURANT AND BAR:

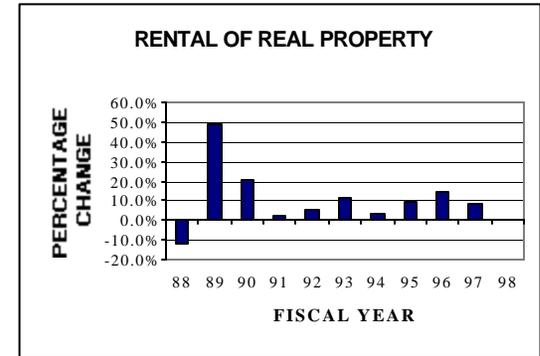
Restaurant and bar receipts increased to \$16.9 million in FY 1998, compared to \$15.8 million in FY 1997. This amounts to a 6.9 percent increase over the FY 1997 revenue level. When compared to the forecast, restaurant and bar collections were 1.9 percent below the estimate. The increase in restaurant and bar receipts was a result of increased Maricopa County personal income, population and tourism. The sharp percentage increase in FY 1996 was partly due to increased tourism as a result of the Super Bowl, and the college football national championship game.



Another factor reflecting the increase in restaurant and bar revenues is the steady growth of passenger air arrivals at Sky Harbor International Airport. In FY 1998, the number of air arrivals at Sky Harbor International Airport increased 1.2 percent over FY 1997 level. The increase in air arrivals during FY 1998 is mainly attributable to increased business travel and tourism. The growth in air arrivals for FY 1999 is estimated to be between 1 and 3 percent over the FY 1998 level. Tourism is expected to continue to be an important factor for Maricopa County due to the climate, the positive exposure associated with major sporting events, and the attractive tourist locations in Maricopa County and the State. The strong national economy has also attributed to increased tourism to Maricopa County.

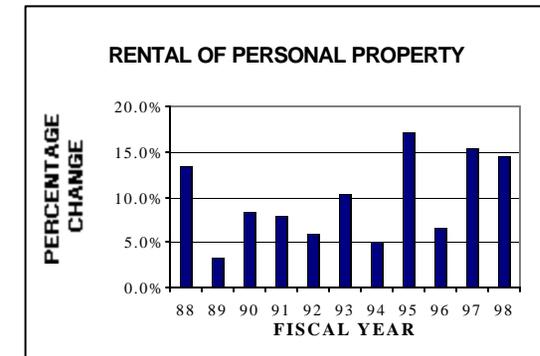
RENTAL OF REAL PROPERTY:

Rental of real property revenues totaled \$19.6 million in FY 1998, compared to \$18.3 million in FY 1997. This amounts to an 6.9 percent increase over the FY 1997 total. When compared to the forecast, rental of real property receipts exceeded the estimate by 5.7 percent. It should be noted that the sharp increase in 1989 was due to a change in the rental of real property tax. The growth in recent years can be attributed to increased population and tourism.



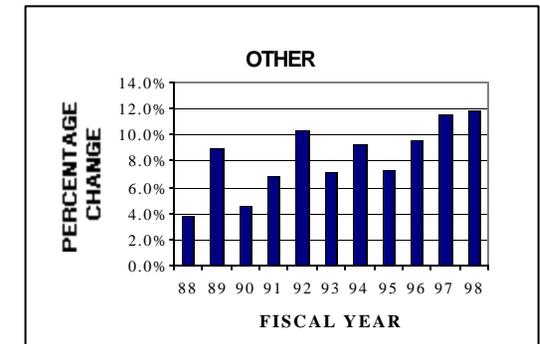
RENTAL OF PERSONAL PROPERTY:

In FY 1998, the rental of personal property collections amounted to \$11.5 million, an increase of 14.5 percent over the FY 1997 level. Rental of personal property collections were 13.1 percent above the estimate in FY 1998. This growth can be attributed to continued consumer and business demand for leased cars and other durable goods. In addition, growth in population and tourism have also played an important role.

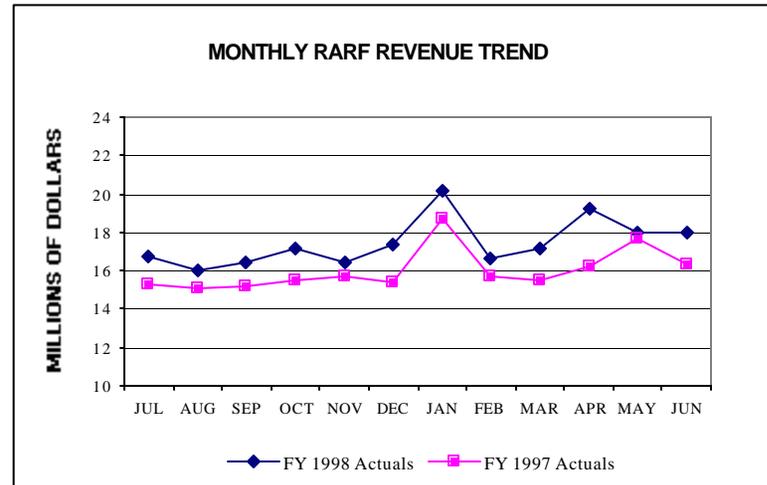
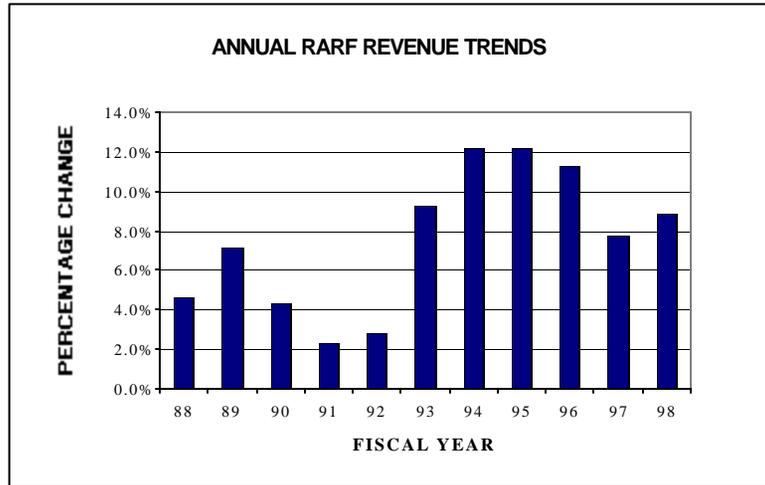


OTHER:

"Other" revenues for FY 1998 reached \$11.5 million, a strong increase of 11.9 percent over the FY 1997 total. When compared to the forecast, "other" revenues were 4.3 percent above the estimate. The "other" revenue category includes amusements, communications, publishing and printing, advertising, transportation and towing, pipelines for oil and gas, private cars, and mining. These items are influenced by the overall level of business activity in the Valley. Historically, this category has maintained strong growth on a year-to-year basis primarily due to the diversity of the components of this category.



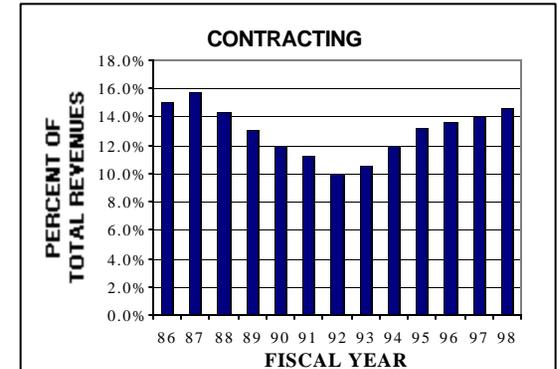
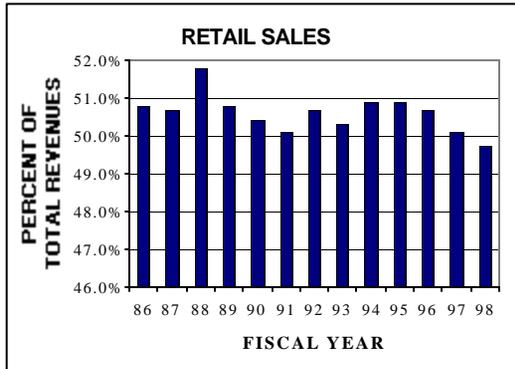
REVENUE TREND ANALYSIS



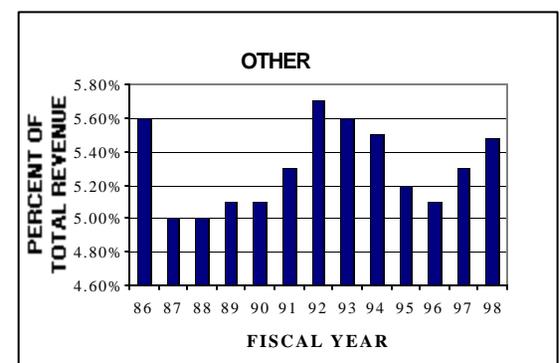
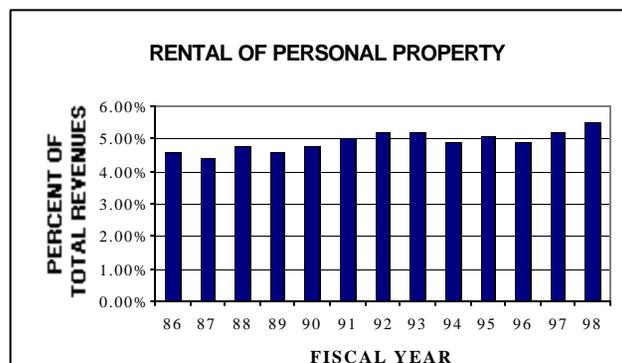
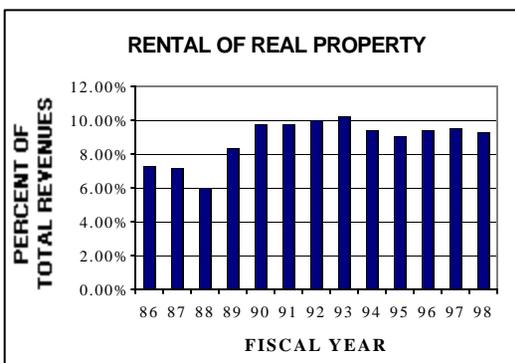
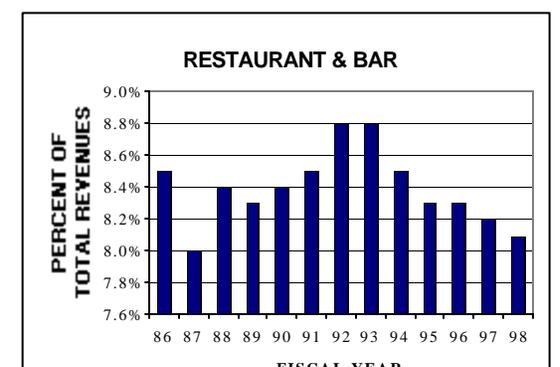
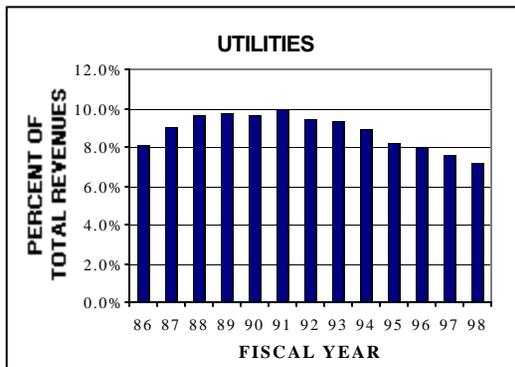
In FY 1998, transportation excise tax collections reached \$209.3 million, compared to \$192.3 million in FY 1997. All revenue categories showed increases over last year’s revenue levels. Strong personal income and population growth, lower interest rates, increased single-family and multi-family construction activity, and increased tourism are some of the factors that have affected the revenue growth in recent years. The Maricopa County economy continues to become more diversified with strong growth in high technology and financial jobs.

On a monthly basis, RARF revenues continue to follow consistent trends as in previous years with sharp increases in revenues in the month of January due to Christmas retail sales.

REVENUE COMPOSITION COMPARISON



Retail sales is the most important component of the excise tax collections, generating just under 50 percent of total revenues. This revenue category has consistently tracked around 50 percent since the inception of the excise tax in FY 1986. The second largest category is contracting, representing 14.6 percent of total RARF collections. In FY 1998, rental of personal property and the “other” category showed slight increases in percentage of total revenues, while the remaining revenue categories all showed slight decreases.



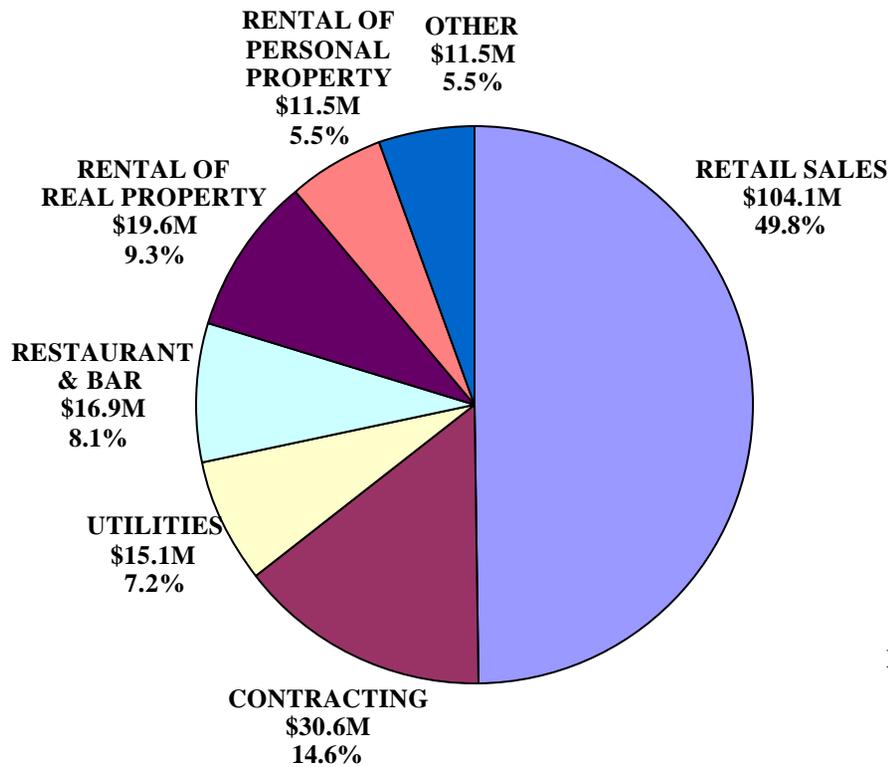
REVENUE PERFORMANCE

MARICOPA COUNTY TRANSPORTATION EXCISE TAX

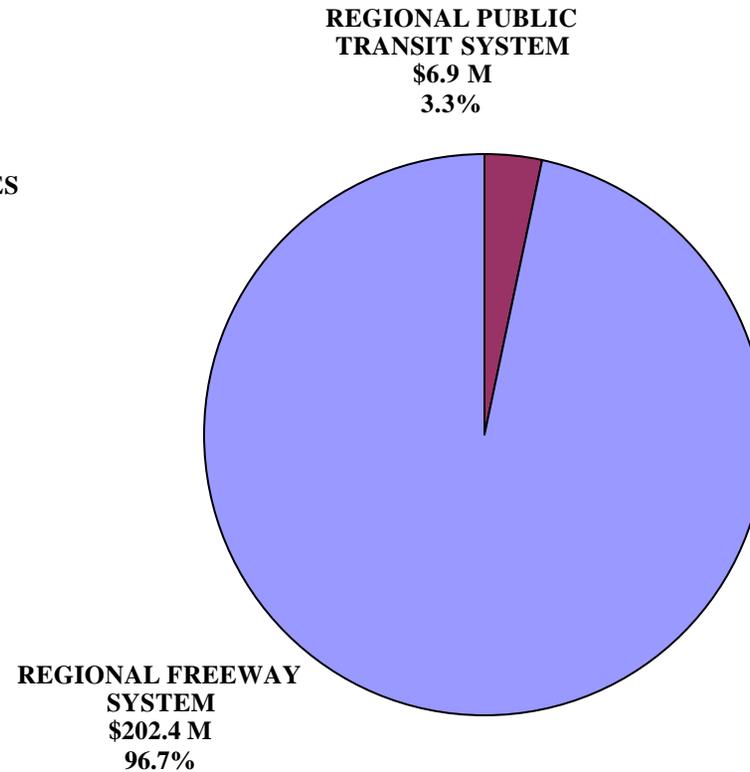
FY 1998 ACTUAL

TOTAL= \$209.3 MILLION

SOURCES



USES



**MARICOPA COUNTY REGIONAL AREA ROAD FUND
TRANSPORTATION EXCISE TAX
REVENUE COMPARISON STATEMENT
FY 1998**

CATEGORY	FY 1997 ACTUAL	FY 1998 ACTUAL	CHANGE	FY 1998 ESTIMATE	CHANGE
RETAIL SALES	\$96,281,460	\$104,072,752	8.1%	\$103,500,000	0.6%
CONTRACTING	26,947,785	30,610,453	13.6%	29,600,000	3.4%
UTILITIES	14,583,395	15,100,775	3.5%	15,470,000	-2.4%
RESTAURANT & BAR	15,820,990	16,916,822	6.9%	16,600,000	1.9%
RENTAL OF REAL PROPERTY	18,298,162	19,551,645	6.9%	18,500,000	5.7%
RENTAL OF PERSONAL PROPERTY	10,073,759	11,539,117	14.5%	10,200,000	13.1%
OTHER	10,251,945	11,471,893	11.9%	11,000,000	4.3%
TOTAL	\$192,257,496	\$209,263,457	8.8%	\$204,870,000	2.1%

NOTE: DIVISION OF COLLECTIONS TO BUSINESS CATEGORIES IS IMPUTED BASED UPON REPORTED TAXABLE INCOME.

**MARICOPA COUNTY REGIONAL AREA ROAD FUND
TRANSPORTATION EXCISE TAX
REVENUES COLLECTED BY CATEGORY
FY 1986 - 1998
(Dollars in Thousands)**

FISCAL YEAR	RETAIL SALES	CONTRACTING	UTILITIES	RESTAURANT & BAR	RENTAL REAL PROPERTY	RENTAL PERSONAL PROPERTY	OTHER	TOTAL	PERCENT CHANGE
1986 *	\$19,244	\$5,716	\$3,073	\$3,682	\$1,923	\$1,733	\$1,615	\$36,986	
1987	48,085	14,849	8,542	7,579	6,822	4,172	4,782	94,831	
1988	51,405	14,188	9,535	8,379	5,994	4,728	4,961	99,190	4.6%
1989	53,927	13,947	10,336	8,795	8,952	4,883	5,410	106,250	7.1%
1990	55,798	13,286	10,685	9,282	10,808	5,289	5,653	110,801	4.3%
1991	56,769	12,715	11,353	9,655	11,091	5,708	6,044	113,335	2.3%
1992	59,108	11,688	10,999	10,280	11,707	6,043	6,671	116,496	2.8%
1993	64,033	13,385	11,874	11,171	12,993	6,672	7,145	127,273	9.3%
1994	72,737	17,039	12,680	12,166	13,414	7,002	7,808	142,846	12.2%
1995	81,546	21,107	13,132	13,291	14,660	8,198	8,384	160,318	12.2%
1996	90,454	24,284	14,198	14,739	16,822	8,734	9,183	178,413	11.3%
1997	96,281	26,948	14,583	15,821	18,298	10,074	10,252	192,257	7.8%
1998	104,073	30,610	15,101	16,917	19,552	11,539	11,472	209,263	8.8%
TOTAL	\$749,387	\$189,152	\$130,990	\$124,840	\$133,484	\$73,236	\$77,908	\$1,478,996	

AVERAGE ANNUAL GROWTH (FY 1987 - FY 1998) = 7.5%

*The tax became effective January 1, 1986

ARIZONA TRANSACTION PRIVILEGE TAX

EXCISE TAX RATES

FY 1998

Taxable Activity	Percent of Total Maricopa County Transaction Privilege Tax Collections	Transaction Privilege Tax Rate	Transportation Excise Tax Rate
Retail Sales	49.74%	5.00%	0.50%
Contracting	14.63%	5.00%	0.50%
Rental of Real Property (including hotels & motels)	9.34%	1.82%*	0.512%
Utilities	7.22%	5.00%	0.50%
Restaurants and Bars	8.08%	5.00%	0.50%
Rental of Personal Property	5.51%	5.00%	0.50%
Communication	3.20%	5.00%	0.50%
Publishing and Printing	0.96%	5.00%	0.50%
Amusements	1.19%	5.00%	0.50%
Other	0.13%	5.00%	0.50%
Mining	0.00%	3.125%	0.3125%
Wholesale Feed	0.00%	0%**	0.00%

* In 1990 and 1993, legislation reduced the transaction privilege tax rate for real property rentals, however, for transportation excise tax purposes, the rate was retained at its prior level.

** In 1994, legislation repealed the transaction privilege tax for livestock and poultry feed, salts, vitamins and other additives for livestock and poultry. The tax rate was reduced to zero on July 17, 1994 and then the tax classification was repealed on October 1, 1994.

REVENUE CATEGORY DEFINITIONS

RETAIL SALES	Includes retail sales of automobiles, durable goods and other general merchandise, apparel, building materials, furniture and other tangible personal property. The tax on food was repealed in July, 1980.
CONTRACTING	Includes prime contracting and dealership of manufactured buildings and owner-builder operations.
UTILITIES	Includes producing and/or furnishing to consumers electricity, natural or artificial gas and water.
RESTAURANT AND BAR	Includes operations of restaurants and drinking establishments.
RENTAL OF REAL PROPERTY	Includes leasing or renting real property, hotels and motels.
RENTAL OF PERSONAL PROPERTY	Includes leasing or renting tangible personal property.
OTHER	Includes operations of amusement places, intrastate telecommunication services, publication of a directory of subscribers, job printing, engraving, embossing and publication, publication of newspapers, magazines and other periodicals, intrastate transportation of persons, freight or property, intrastate operation of pipelines for oil or natural or artificial gas, and intrastate operation of private car lines.